The MORTGAGE BANKER

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FHA Approved Mortgagees Ought to Have the Automatic G. I. Loan Guarantee

And Here's What MBA Is Doing to Help Them Get It

IF legislation which has just been introduced in congress eventually becomes law, FHA approved mortgagees will become eligible to secure the automatic guarantee for their G.I. loans as banks, savings and loans and certain other types of lenders are now. Thus, it is hoped, one of the most important recent developments in the mortgage business will be brought to a successful conclusion.

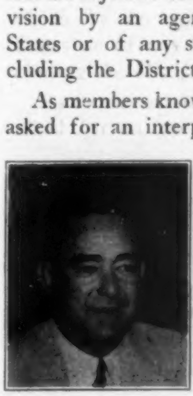
Whether this legislation actually becomes law is of course problematical, but those in MBA who have been working feverishly on it for the last several weeks are hopeful that it will because its sponsorship in the Senate and House is the best.

Logic and common sense are back of the legislation and to those who have thought the proposal through in every aspect, there seems no reason to believe that congress could do anything else but approve.

The story back of this development is an interesting one for everyone interested in mortgage lending regardless of whether he makes FHAs or not. One man should be singled out for special mention—A. H. Cadwallader, Jr., president of the Mortgage Investment Corporation of San Antonio. Equally active in this effort have been President Kanaley and Mr. Cadwallader's fellow Texans who selected him, at Mr. Kanaley's invitation, to go to Washington to present their views—and the wisdom of their choice was amply justified.

To begin at the beginning, MBA members know that the amended G.I. legislation provides for an automatic guarantee of loans to "any federal land bank, national bank, state bank, private bank, and building and loan company this is subject to examination and supervision by an agency of the United States or of any state or territory, including the District of Columbia."

As members know, MBA immediately asked for an interpretation of this situation and it was forthcoming from Edward E. Odom, VA Solicitor. On February 14 he ruled that approved mortgages are not in the same class with banks, land banks and savings and loans because the supervision and examination they receive is not that contemplated by Act. A copy of Mr. Odom's opinion was sent to all MBA members.



MR. CADWALLADER

Following Mr. Odom's interpretation, a group of Texas members of the Association met in San Antonio and made preliminary plans for re-opening the matter with Washington officials in cooperation with MBA. They included R. D. (Buck) Walton, T. A. Robinson, Jr., B. B. Yeager, T. J. Bettes and Allyn Cline, Houston; Mr. Cadwallader, Mr. Cleaver, Mr. Van Auken, and Frank Wolff, San Antonio; Donald Fitch and Aubrey Costa of Dallas; and G. R. Swantner, Corpus Christi. Mr. Cadwallader agreed to act as spokesman and met President Byron V. Kanaley, Vice President Guy T. O. Hollyday, Washington Counsel H. Loy Anderson, and W. L. King, chairman of the federal legislative committee in Washington for a series of conferences with Mr. Odom, Francis X. Pavesich, FHA Commissioner Foley and various members of congress. After these conferences, the matter came to a head with the following results:

Paul J. Kilday, member of congress from Texas, has introduced a bill which would permit FHA approved mortgagees to get the automatic guarantee. A similar bill has been introduced in the Senate by Sen. Edwin C. Johnson of Colorado. The bill is simple to the extreme and merely provides for adding this phrase: "and including mortgage loan companies designated as approved mortgagees by the Federal Housing Administration."

Congressman Kilday submitted a potent argument to Congressman John E. Rankin, chairman of world war veterans legislation committee, when he said:

"FHA recognizes reputable mortgage

loan companies as 'approved mortgagees' when they have a capital structure of their own, free and unencumbered, of at least $100,000 and have had satisfactory experience in mortgage lending procedure. Notwithstanding this recognition by FHA and the uniformly fine record held by these companies with that Administration, the present ruling excludes them from participating in the automatic loan provisions of the G.I. Bill of Rights.

"I want to call your attention particularly to the fact that these companies represent private industry exclusively, and if they are barred from this program, it will mean that G.I. loans will be ultimately financed, in major portion, by federal agencies such as the Home Loan Bank or others. As a matter of fact, practically all of the real estate loans made by insurance companies are made through mortgage loan companies such as I have mentioned. They constitute the one outlet for insurance funds invested in real estate loans, particularly home loans."

Mr. Cadwallader's point of view, as expressed to Senator Connally of Texas, along the same line was equally impressive and appears so reasonable that those who have been most intimately associated with this effort in recent weeks have hopes for ultimate success.

Thinks will deny private enterprise its rights

He told Senator Connally that:

"This (barring of FHA approved mortgagees from the guarantee) has the effect of denying all private enterprise the right to participate in home loans for veterans. The major portion of the funds loaned by mortgage loan companies are those of insurance companies. Necessarily, these are private funds. On the other hand, those financial institutions which are permitted to participate in veterans' loans with the automatic guarantee feature may resort to government loans in order to continue making loans for the purchase of homes by veterans. Should this continue, you will see that ultimately veterans' home financing will be borne by the government and private enterprise prevented from participating."

This battle isn't over by any means and FHA approved mortgagees may be asked for assistance in laying the facts before their elected representatives. When, as and if that time comes, MBA will advise as to what seems the proper procedure to follow.

GEORGE H. BATCHELOR
CORWIN A. FERGUS

With sorrow we announce the death of two men associated with MBA institutions. George H. Batchelor, senior counsel of the mortgage loan department of The State Life Insurance Company of Indianapolis, passed away in Indianapolis. He had been in ill health for some time. Associated with The State Life since December, 1922, he was an outstanding authority on real estate law.

Corwin A. Fergus, vice president of Institutional Securities Corp., New York, died suddenly in Philadelphia. He was 52. He was formerly deputy manager of the Federal Savings & Loan Insurance Corp. and well known to most MBA members. Mr. Clifford Boyd will take over Mr. Fergus' position.

1946 Convention Dates Changed

Make a note of this now: MBA's 1946 annual convention dates have been changed *from* October 2, 3 and 4 to September 30 and October 1 and 2. The Board of Governors will meet Saturday, September 28, and the convention will open Monday—first time we've ever opened the first of the week. The reason is that the Netherland Plaza Hotel can better take care of those attending by opening on Monday.

A Letter to Banks

from

ELLIOTT V. BELL .

New York Superintendent of Banks

"As a result of the current scarcity of mortgage investments a practice has developed on the part of certain mortgage lenders of paying excessive premiums, directly or indirectly, to brokers and builders for the purpose of inducing them to place mortgages within their control with certain lending institutions.

"In our judgment this is an undesirable practice which can result in conditions adverse to the public interest and destructive of sound mortgage lending practices. It places lending institutions in the position of petitioners to brokers and builders and transfers to these latter a controlling voice over the terms and conditions under which mortgages are made. Beyond that, it results in a progressive reduction in the yield on mortgages without the benefits of this reduction being passed on to homeowners.

"It is our opinion that no premiums or bonuses should be paid directly or indirectly to builders to induce them to place mortgages with any particular institutions; that costs absorbed by lending institutions should accrue to the benefit of the ultimate purchaser of the mortgaged property and that premiums and fees paid to brokers should be limited to reasonable amounts commensurate with the services performed.

"On the basis of past practices and as a result of conferences we have recently held with mortgage lending institutions, we are of the opinion that the following scale of fees may be regarded as not unreasonable or excessive:

"For finding brokers, not more than 1%.

"For processing brokers or other processors, an additional ½ of 1 per cent when they actually perform the services for which they are being compensated;

"For the servicing of mortgages, not more than ½ of 1 per cent annually on the mortgage balance.

"It is strongly recommended to your institution that in formulating your mortgage lending policy you give serious consideration to these points. I should appreciate it if you would make known the contents of this letter to your directors or trustees at their next meeting."

Heavy Amortization Is Essential

During the next three to five years, loans should require substantial amortization as a buttress for the eventual decline in values, says this authority

By RAYMOND RODGERS

INTEREST rates have dropped so low that in the congressional halls representatives glibly talk about the issuance of non-interest-bearing government "bonds" to the commercial banks! All sections of the money market and all branches of the capital market have felt the tremendous impact of the serious decline in the rate of interest.

Mortgage rates have been no exception. In this field rates have dropped sharply giving a much smaller margin for the servicing of the loans and for the creation of reserves against the losses which are *certain to develop* out of the present abnormal and artificial situation in housing.

These lower rates, which allow very little margin of safety for losses, call for the most cautious and conservative operations in the history of mortgage lending. Yet, paradoxically, we see both private and institutional lenders making many loans on the basis of valuations which cannot be justified, even at the moment, to say nothing of the "long run" justification. The greatest shortcoming, in fact the curse, of low interest rates is that they frequently force lenders, in the unceasing search for satisfactory return, into marginal loans, excess valuations, and other unwise practices.

There are many reasons, of course, in addition to the increase in bank deposits caused by government bond purchases, for the prevailing "low" interest rates. Many economists seeking an explanation of the decline in rates look at the vast monetization of the public debt and cry, "Eureka!"; but they should look further.

Historically, the basic trend of interest rates has long been downward throughout the world. Without in any way implying that the United States has a mature economy (which is another way of saying that we have reached the end of our "economic rope"), it is incontrovertible that as an economy gets older the supply of capital increases, under conditions of security, and the demand for capital does not show a proportionate increase. That is, while demand increases absolutely, it does not increase *relatively*. This development has been intensified in the United States by our great natural resources and our enormous productivity. These, coupled with our economic and financial policies of the last 20 years, would have given us lower interest rates even if we had not had World War II and its sales of bonds to the banks.

Now how does this lower interest level affect mortgages and real estate?

As might be expected, mortgage rates have held their relative position in the pattern of interest rates and *have declined in line with them.* Mortgage rates now vary from 3½ per cent to 4½ per cent, with most large, good urban mortgages being made at 4 per cent. Small mortgages on private homes are somewhat higher, with some lenders in the traditional pattern of rugged individualism getting as much as 6 per cent here and there. But, in general, competition, among the various lenders, for mortgages is very keen and not only have rates declined, but what is far more important, the appraised values of properties have been materially increased. And, please note, these *increases in valuation have been made by the lenders!*

> *The author of this article is professor of banking at New York University and reflects the viewpoint of the student of real estate on pesent-day conditions. MBA members who attend our Joint Training Program at this institution next Fall will have an opportunity to hear Prof. Rodgers.*

Earlier this year I addressed the Association of Commerce in New Orleans and said:

"I do not fear inflation as the term is understood in Europe—a wild, unreasoning increase in prices. The United States is in the best position of any nation in the world because we have no direct war damage, our productive facilities are far beyond the needs of the country and we have by far the strongest financial position of banks, corporations, and individuals — both credit and capital. Goods can be produced in this country to meet even fantastic demands. And, *goods are the real antidote to inflation.* Furthermore, in the past, inflations have always arisen from depressions—never from booms. And, aren't we going to have a boom next year? Higher prices, yes; inflation, no."

But when I said there was no probability of inflation in the United States, I had my fingers crossed on real estate. Speculators, AAA allotment chasers, city people seeking a hedge against inflation, black market operators fleeing income taxes, individuals with swollen war earnings and a large assortment of plain, old-fashioned suckers have rushed in and driven farm land in many areas and states to unconscionably high levels. Also, developments in many suburban areas have been almost as dangerous. And here is the real tragedy of the situation: Many lenders have contributed to this unhealthy development instead of exercising sorely needed restraining influences.

Of course, there are current economic reasons for these developments—reasons but not justification for the actions of both lenders and borrowers. Among these reasons, the following should be put high on the list:

1. The supply of credit and capital

seeking investment employment is greater than ever before.

2. There is a serious fear of inflation and a general belief that real estate is a good hedge against inflation.

3. The supply of available mortgages has been severely limited by the restricted private building activity of the war years and the rapid repayment of mortgages through amortization and otherwise by mortgagors.

4. The cost of construction has increased some 35 per cent over the prewar figure.

5. Many people fear that still further increases in the cost of construction will take place.

6. There is a real housing shortage.

War isn't the one and only cause of housing shortage

To summarize: The fear of inflation, the higher construction costs, and the expectation that costs will go even higher, coupled with the housing shortage, have in combination caused the rapid rise in property values.

Now about the housing shortage. First, the assumption that the shortage is chiefly the result of the cessation of building construction during the war is not borne out by the facts. Thus, under the war housing program, between July 1, 1940, and Aug. 31, 1945, there were built 2,290,731 family units, 1,658,007 single-person units and 81,136 stop-gap accommodations giving a grand total of 4,029,875 accommodations converted or built during a period when many think construction was at a standstill!

Before the war there was no housing shortage: in fact, it was the opposite. What, then, has happened to make it impossible now to find a vacant apartment or an empty house? Of course, there have been many wartime marriages and, too, the number of separate families is rapidly increasing, but to my mind these do not completely explain the shortage. Is not the high level of income an important reason? Some people now maintain a *city* home *and* a country home where *one* would do if times were not good.

Other people formerly satisfied with hall bedrooms now demand apartments. Still others refuse to "double-up" with the old folks although they would be glad to have the opportunity to do so if the normal economic compulsion were present. In my opinion, *unemployment and declining payrolls could remedy the housing shortage practically overnight*, which is certainly much faster than the construction industry can do it!

However, I do not anticipate heavy unemployment in the next two or three years, and it will take at least that long for the building industry to overtake the present shortage. So, we can safely estimate that the shortage of housing will continue for another two to three years. But, after that, what?

It seems clear that building costs will rise during the initial catch-up period with the result that labor-saving methods will have to be introduced if construction is to continue at a high level. And, when you consider the millions of substandard housing units our people now occupy, the opportunity which confronts the building industry is indeed great; but this opportunity does not lie along the road of higher costs.

Housing is not immune to the economic limitations of "ability to pay." For example, the National Housing Agency estimates that out of a total housing need of 12,600,000 units at least 8,400,000 units would have to rent for *less* than $50 per month. Public housing and slum clearance in large volume may, therefore, be expected to get under way in the next two or three years. This will adversely affect the value of a great deal of present property, particularly that occupied by the low income groups.

Watch your lending on luxury homes and apartment houses

Government policies will, also, adversely affect real estate values at the other end of the scale. I refer, particularly, to the effect on the value of luxury homes and apartments of the heavy federal taxes, which we are certain to have in the future. (To say nothing of urban tax burdens!) If you do lend on such properties, do it on a valuation *based on middle class occupancy!*

When the new houses and apartments adapted to modern needs, such as lack of domestic help and smaller families, become available, they will have a very unfavorable effect on the values of buildings erected before the war even though at lower costs. Also, in your valuations you should keep in mind that women are having more and more to say about housing. They are not interested in the beams and the solidity of construction. They don't worry about the foundation. They are not looking for a house which will last a hundred years; women don't like old things! No, they look for gadgets and labor-saving ideas and devices. And, the last thing in the world the modern woman wants is one of those substantial old houses with 10 to 15 rooms, such as the one in which her mother worked herself to death!

Coming battle of distribution will have big effect on values

Don't forget that all buildings are now five years older than they were before the war. Furthermore, practically all of them have heavy *unrealized obsolescence* because of social changes, changes in the American family itself, improved labor-saving gadgets, and heavier taxes. At present, this obsolescence is hidden by the heavy demand for housing and the strong rent structure, but it is there just the same, and it will become painfully obvious in the future.

Business property will be affected adversely by the efforts which will be made to reduce the costs of distribution. The Herculean struggle, which we shall witness in the field of distribution, will undoubtedly have an unfavorable effect on many small independent distributors and merchants, forcing their properties on the rental or sale market. Specially constructed buildings will be required by many of these new chain distributors. This will tend to reduce the value of existing small business property.

Also, easy credit terms will cause many to go into businesses for which they are not properly prepared. The resulting failures will dump distressed property with its chain of consequences on the market.

(Continued page 7, column 3)

THE NATIONAL SCENE

What the People Want in Housing

There wasn't much consolation to be derived from the April issue of *Fortune* which was devoted entirely to housing. Those people, including a majority of mortgage men, who feel that production and production alone is the key to our present ills, got little comfort from the results of *Fortune's* poll. For instance:

Over 46 per cent of the people interviewed contended that the housing problem will not get straightened out until "the government does a lot more than it has." Thirty-eight and five-tenths per cent believed the problem would be solved if industry was "left pretty much alone," while 14.8 per cent had no opinion.

Other questions disclosed that:

Eighty-one and three-tenths per cent of the people want rent ceilings maintained.

Seventy-five and six-tenths per cent want ceiling prices kept on building materials.

Seventy-five and six-tenths per cent want these materials channeled into the lowest-cost residential field by government action.

Forty-eight and one-tenth per cent (a plurality) want the government to embark on a large-scale home building program.

Eighty per cent want government loans to individuals for low and medium priced housing.

Fortune disclosed that about one-third of the nation definitely wants to move and that nearly half the prospective buyers and builders in this group want to pay less than $6,000 for a house —while three-fourths of the prospective renters desire to pay less than $50 a month.

About one-fifth of the nation is "doubled up" because of lack of homes, the survey revealed. The national average for doubling up is 18.7 per cent of all families and this hardship is greater in the lower middle (23.2 per cent) and poor (18.3 per cent) income groups than in the rich or upper middle brackets (about 12 per cent each).

Nearly two-thirds of the people now in cities of over 100,000 would rather live almost anywhere else while over 70 per cent of those living on farms want to stay. Except for farmers, who seem to be the least discontented group in the country, the U. S. people show a pronounced yearning for life in the suburbs.

Fortune commented that "there is an obvious market for the 2,700,000 homes that Expediter Wyatt hopes to see started in the next two years—if they are built to sell or rent at the right prices.

More than 40 per cent of the people, the magazine said, cannot afford to pay more than $4,000 for a house or spend more than $35 a month for rent and "the present level of building costs and the present techniques of the builders—even the prefabricators—offer little prospect of new housing for this bracket."

However, new housing built in the next bracket above, the $4,000 to $6,000 range where Wyatt is concentrating his efforts, would be occupied by some families who are now paying less for their housing than they can afford. As these families move into new homes, vacancies will be passed along down the line and will relieve the pressure on the housing supply of the lowest income bracket.

Fortune listed 12 critically scarce building materials and pointed out that the shortages "are not due simply to reconversion troubles or to strikes, but are the result of dislocations that began at the outset of the war." These materials are:

Housing lumber, plywood, bricks, structural clay tile, clay sewer pipe, concrete blocks, gypsum board and lath, cast iron soil pipe, cast iron radiators, warm air heating, bathtubs and asphalt roofing.

Fortune predicted that the housing emergency will reach its worst point next autumn and will remain serious until the spring of 1947. The shortage will not end until we have erected about 3,000,000 new homes.

HOLC Nears the End of the Road

The HOLC is going to pay out, that much seems assured. But even now in Washington, some vast new HOLC-type of thing is being talked of for that day when, as many believe, the veterans now buying at high prices are going to need something like it. But let that wait; in the meantime, the HOLC is doing some bragging, as it probably has a right to do, all things considered.

Operating figures to last January 1 assure the liquidation without a dollar of loss to the Government instead of the half a billion to a billion dollars deficit predicted when HOLC was created, John H. Fahey, said.

The Corporation was more than three-fourths liquidated at the year end, with its $3,500,000,000 total investment now down to $853,951,000.

During 1945, HOLC had a net operating profit of $22,-600,000, after paying all administrative expenses, bond interest and property losses; the cumulative losses of $337,246,000 taken by the Corporation in the sale of houses it was obliged to foreclose had been reduced by net earnings to a balance of $50,371,000 at the close of the year.

When liquidation is completed, the Corporation will be able to return to the treasury its $200,000,000 of capital.

Of 198,168 properties taken over, 197,799 had been sold by the first of this year. The balance of 368 on hand has since been more than cut in half. The foreclosed homes were sold as rapidly as the real estate market would permit and all but a small proportion were disposed of before the United States entered the war.

Over a period of three years ending in 1936, HOLC refinanced more than a million delinquent mortgages, which on the average were then in default nearly two years on principal and interest and three years on taxes.

A Yardstick for Your Loans

By GUY T. O. HOLLYDAY

IRVING N. CLARY, vice president of The Paterson Savings Institution, Paterson, New Jersey, has recently made a study that should interest mortgagees. Like many other mortgagees, he concluded that the interest on government bonds should be used as a basis for comparison with the *net* yield of mortgages. However, he went farther and studied the history of mortgages for many years in his community, so as to determine how much of a spread there should be between high grade mortgages and government bonds to protect the mortgagee in a depressed market.

It was his conclusion that a spread of three-fourths of one per cent might provide sufficient protection to compensate for the loss hazard.

Let us see what a three-fourths of one per cent spread would provide.

A million dollar portfolio of twenty-year 4½ per cent mortgages would produce extra income of $34,425 at the end of the fifth year. Compare this with the possible loss. At the end of five years the principal balance would be $830,000. If the defaults should be 10 per cent, then the default would aggregate $83,000. In the case of conventional mortgages, using the last depression as a guide, there would likely be a loss of 30 per cent in these defaults, amounting to $24,900, which is less than the $34,425 accumulated reserve.

Suppose the portfolio is composed of FHA loans, if the defaults should be 30 per cent then they would aggregate $249,000. It is assumed that the total loss would not exceed 10 per cent, or $24,900. This 10 per cent should cover foreclosure costs plus an amount necessary to put the property in condition for reconveyance to the FHA. Here again the estimated loss is less than the accumulated reserve.

If this spread of ¾ of 1 per cent is not sufficient, use a higher figure. At the end of five years a spread of 1½ per cent would produce $68,850. In applying any such formula it is important that one first establish the *net* mortgage yield, which may be calculated by spreading the sum of all expenses over the estimated life of the loan, then deduct such annual charge from the amount of gross interest.

It's our duty to proceed carefully with G.I. loans

The veteran of today will be the business man of the future who is entitled to our best service by virtue of his contribution to the country, if not for the selfish reason that his group will be the chief customers of our institutions in the future. In many cases, veterans are being sold properties at prices beyond their reasonable values. With houses being built in spite of the scarcity of materials and hampering regulations, the volume is almost certain to steadily increase, with the result that the veteran who purchases an $8,000 home that is now being built for $7,200 to $7,500 is paying a high premium for immediate occupancy.

We have just instructed a sign painter to prepare a large sign to be hung behind the desk of our company officer who handles G.I. loans. It is a quotation from General Bradley in his foreword to the Outline of Administrative Procedures and Policies, and reads as follows:

"Veterans should be advised that they will have available to them the loan benefits for a period of ten years after the official end of this World War II. Their attention should be called to the extraordinary lack of supply that exists today and the abnormally high prices that prevail for homes, farms, equipment, and other commodities. Their attention should be directed to the fact that many are trying to buy and very few are anxious to sell; also the possibility of being able to purchase to better advantage in the succeeding years and the probability of loss in resale."

These are excerpts from an address which Vice President Hollyday made before members of the Carolina-Virginias Chapter of Robert Morris Associates at the Patrick Henry Hotel in Roanoke, Virginia at the organization's annual meeting.

An interesting question arises as to the attitude of borrowers in this market who are being financed 100 per cent. Will these borrowers experience the same feeling of moral obligation as those who have invested a substantial part of their savings in a home? It seems to me that there is more likelihood of the moral obligation being appreciated if the mortgagee explains to the borrower the probable effect of this inflationary market.

Some of the G.I. loans come from builders who built rental housing under Title VI of the FHA. Here the G.I. gets a break because in many cases he is purchasing properties at less than duplication costs. In one instance, a builder is selling 300 bungalows for $4,000 each, the duplication cost of which today would be over $5,000. At present the average loan in Baltimore runs around $5,600. Putting a number of $5,600 loans on the books with a $2,800 guarantee is good business. However, many loans are turned down. In these cases the veterans have contracted to purchase homes that even a $4,000 guarantee is not sufficient to insure protection. Employ a sensible appraiser and spot check him frequently. Of course you should be concerned with income, the rule-of-thumb being a limitation of monthly expenses to one-fourth the monthly income exclusive of the wife's income. Credit reports are helpful but not conclusive.

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MORTGAGE BANKERS ASSOCIATION OF AMERICA

BYRON V. KANALEY *President* — GUY T. O. HOLLYDAY *Vice President* — GEORGE H. PATTERSON *Secretary-Treasurer* — G. H. KNOTT *Editor*

MAY, 1946

People and Events

Edward V. Walsh of the First Federal Savings & Loan Association has been elected a director of Chicago MBA to replace **Frank Rakouska**, resigned . . . the Chapter is planning a Clinic for May 16, with four sessions included . . . and its annual outing is set for July 11 . . .

The *Cleveland Press* has recently been sponsoring a "home clinic" at the city's Home and Flower Show . . . among the speakers on home financing were **W. E. Miller, E. A. McNabb** and **Leonard Leick . . . William J. DeHuszar** has returned to **Dovenmuehle, Inc.**, Chicago, as office manager and assistant treasurer . . . a master sergeant during the war, he discovered the $160,000,000 treasure cached away in an Austrian monastery by the Hungarian government.

President **Joseph H. Grayson** of **Chicago MBA** has announced his committee appointments which include appraisal, G. Irving Thunander; fair practices and business advancement, M. A. Pollak; FHA, Clarence H. Goelzer; G.I. loans, Wilbur F. Pilgrim; legal, Irvin Schildein; legislative, Leon C. Wolfe; membership, William Barts; membership dues, Paul R. Abrams; program, Harold F. Yegge; publicity, Theodore A. Buenger.

Burlye B. Pouncey, formerly manager of the mortgage loan and real estate departments of **Guardian Life,** has resigned to become associated with Ivor B. Clark & Co., New York . . . Ray Thorne, formerly executive vice president of the Paramount Fire Insurance Company, is now president of **Calumet Securities Corporation** of Hammond, Ind. . . . **J. Robert Miller,** former head of MBA research, is now associate editor of *Finance* magazine, Chicago . . . and **Helen Pihl,** also of the MBA staff, will soon become his assistant . . . **Chicago MBA** has moved its offices to new and larger quarters in the First National Bank Building . . . **Col. Harold Lee** has been named a governor of the Federal Home Loan Bank Administration. He's been counsel for seven years and prior to that was in charge of HOLC's property management. . . .

The RFC is said to be giving "sympathetic" consideration to setting up a secondary market for G.I. loans . . . and you may have heard more about it before you read this . . . as this is written, Missouri's legislature has passed and sent to the governor the key bill in a series setting up a new intangible tax code. The measure fixes a rate of 4 per cent on the yield on investments such as bonds and mortgages, but corporation stocks are not included in the base. Scheduled for subsequent passage were bills providing for a 7 per cent tax on the net profits of banks and trust companies, and a 2 per cent levy on the shares of building and loan associations to be withheld by the concerns.

Chicago MBA has just released its Mortgage Statistics for First Quarter, 1946, showing loans recorded, foreclosures, etc. . . . **C. Armel Nutter,** Camden, N. J., was one of the principal speakers at the Sales Conference of the Philadelphia Real Estate Board . . . his subject was Ground Sales and Financing . . . Armel's Camden offices were recently moved to his own building, 509 Cooper street . . .

Martin M. Gallagher has become associated with **L. E. Mahan & Company,** St. Louis, where he will be in charge of FHA and G.I. loans. Mr. Gallagher has just returned from three years' service in the armed forces . . .

RAYMOND RODGERS

(*Continued from page 4*)

It is my considered opinion that, while the immediate outlook for real estate is good, *the long term outlook is not favorable.* This should be fully taken into account by mortgage lenders as their loans tie up their funds for a long period of time.

What, then, is sound mortgage policy at present? You have to continue operating. You can't just lock the door and say we don't like developments so we won't play! So, as a practical matter, a compromise has to be made on rates if mortgages are to be obtained at all.

Likewise, an increase in appraised value beyond the 1939-1941 cost level is frequently necessary in order to meet the competition of some of the other lenders. How far a lender can safely go in this increase in valuation is hard to say. Certainly, *no yardstick can be used!* Every dollar of every such transaction should be closely scrutinized and watched.

Furthermore, such mortgages should require substantial amortization during the next three to five years so that when the inevitable decline in real estate values set in the mortgagor will have a substantial equity in his property. Let me say that again: *A graduated amortization scale is imperative for the next five years, even if lower rates have to be offered to get such a scale.*

In your operations a conservative policy is indicated if you believe building activity will be high in the next few years, as that will reduce the values of present buildings. On the other hand, a conservative policy is also indicated if you believe that the building boom will be short-lived.

ABA Devises Form for Making G. I. Loans

MBA members who intend to do a volume of GI loan business will be interested in the copyrighted form published by the American Bankers Association. The Act and the regulations stipulate that home loans under Title III will be guaranteed or insured provided the lender certifies that "the contemplated terms of payment required in any mortgage to be given in part payment of the purchase price or the construction cost bear a proper relation to the veteran's present and anticipated income and expenses."

The regulations further provide that any lender who, in the opinion of a loan guarantee officer, has failed to exercise proper credit judgment may temporarily have his right to obtain guaranty or insurance suspended.

The regulations, however, do not prescribe any process or formula for determining the "proper relation" between the terms of payment required in any mortgage and the veteran's present and anticipated income and expenses. Since no uniform application form is provided, lenders must obtain sufficient credit and financial information from veterans to enable them to make the required certification.

As a protection against the possibility that an extension of credit may be subsequently investigated, lenders will no doubt wish to preserve this information in their files. Submission of credit reports is no longer required but many lenders will continue to obtain them.

Home mortgage application forms currently in use that do not provide sufficient borrower and credit information to enable compliance with the requirements of the Act should be revised or supplemented with forms providing the necessary additional data.

The ABA form is not designed to serve as a complete loan application, but rather to suggest items of information which will be helpful in analyzing veterans' home loan transactions and which lenders may wish to incorporate in their application forms. It may serve as a temporary supplement to existing forms. The ABA forms may be had from the American Bankers Association, Department of Real Estate Finance, 12 East 36th Street, New York 16. One hundred cost $1; 500, $4.50; and 1,000, $8.00.

Personnel

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